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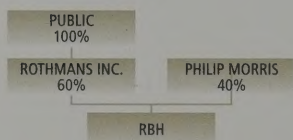
Rothmans Inc.

annualreport

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corporate profile

Rothmans Inc. ("Rothmans") is a widely held Canadian public company with common shares traded on the Toronto Stock Exchange under the stock symbol ROC.

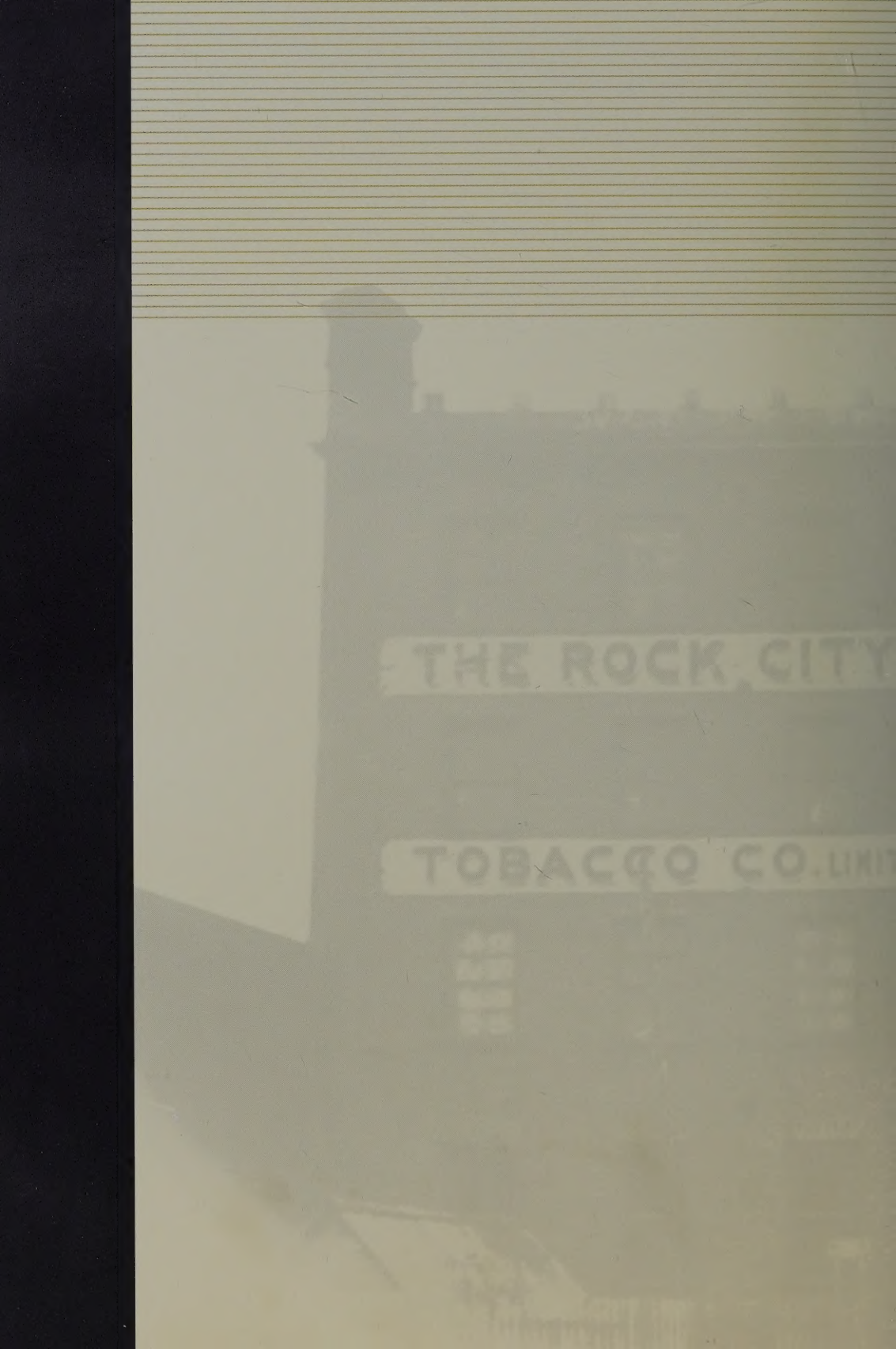


The Company's 60%- owned subsidiary, Rothmans, Benson & Hedges Inc. ("RBH"), manufactures and distributes a full range of quality tobacco products for Canadians. FTR Holding S.A. of Switzerland, an affiliate of Philip Morris Incorporated, holds the remaining 40% of RBH.

highlights

- Net earnings increased 14% to \$81.2 million, or \$2.46 per share, excluding after-tax impact of merger termination fee.
- Additional EPS of \$0.31 earned from a merger termination fee.
- Increased the regular quarterly dividend to \$0.375 per share from \$0.30 per share.
- Increased composite market share to 21.6% from 21.3%.
- Continued to reduce ongoing structural costs.
- Recapitalized Rothmans, Benson & Hedges Inc. resulting in the distribution of \$90 million to Rothmans Inc.
- Rothmans Inc. share price increased 32% from \$23.45 to \$31.00.

Year ended March 31 (in thousands of dollars)		2002	2001	2000
INCOME STATEMENT	Sales, net of excise duty and taxes	\$562,536	\$ 538,236	\$ 533,219
	Earnings	91,484	71,464	63,457
FINANCIAL POSITION	Total assets	\$526,944	\$ 381,884	\$ 358,723
	Shareholders' Equity	253,274	203,276	167,303
PER COMMON SHARE (\$)	Earnings - basic	\$ 2.77	\$ 2.16	\$ 1.92
	Dividends paid	1.275	1.10	1.00
	Shareholders' equity	7.66	6.15	5.06



THE ROCK CITY

TOBACCO CO. LIMITED

TO OUR shareholders

Rothmans Inc. performed very well by almost any measure in fiscal 2002. We increased revenues and earnings, raised the regular dividend, and our operating subsidiary, Rothmans, Benson and Hedges Inc., improved its position in the Canadian tobacco market. On the strength of this performance, the Company's share price increased 32% during the year.

In a year of worldwide financial and political turbulence, Rothmans navigated a steady course toward its goals of improving market share, increasing profitability and maximizing shareholder value. We are pleased with our results and take pride in operating our business efficiently and responsibly to deliver consistent solid performance.

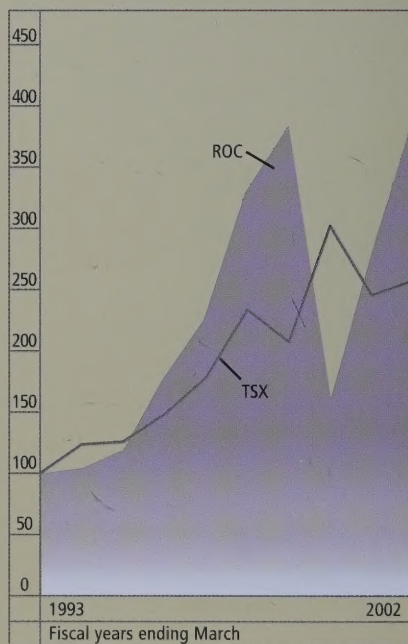
Strong Results

Financially, Rothmans Inc. delivered strong results. The Company achieved earnings of \$91.5 million on revenues of \$562.5 million. This compares with \$71.5 million on revenues of \$538.2 million in fiscal 2001, for a

ROTHMANS INC. HAS GENERATED SUBSTANTIAL SHAREHOLDER RETURNS.

CUMULATIVE TOTAL SHAREHOLDER RETURNS

Fiscal 1993 = 100



At the end of fiscal 2002, the index of shareholder returns for Rothmans stood at 391.0% versus 257.8% for the TSX composite index, measured over the past ten years.

TO OUR shareholders

28.0% increase in earnings and 4.5% increase in revenues. On a per share basis this translates to \$2.77 for fiscal 2002 compared with \$2.16 in fiscal 2001. The merger termination fee received from Santa Fe Natural Tobacco Company Inc., net of costs, contributed \$0.31 to earnings per share. Excluding the merger termination fee, earnings per share were up nearly 14% for the year. This growth was achieved even though one-time rationalization charges of \$0.13 per share were incurred during the year.

Margin improvements in 2002 were achieved due to continued price increases combined with the benefits of cost containment programs. This was achieved despite declining industry volumes.

During the year, Rothmans delivered on the commitment made at the time of the fiscal 2000 secondary offering to add leverage to the operating company in order to create a more efficient capital structure for Rothmans, Benson & Hedges Inc. The recapitalization of RBH reduced its share capital by \$150 million and resulted in the distribution of \$90 million of that capital to Rothmans Inc.

Cash flow from operations of \$158.7 million places Rothmans in a very strong financial position. The Company paid total dividends of \$42.2 million or \$1.275 per share during the year compared with \$1.10 per share in fiscal 2001. In the fourth quarter, the Board of Directors announced an increase in the regular dividend from an annualized \$1.20 per share to \$1.50 per share per annum. Since December 2000, the dividend has increased 50%.

Responding to the Company's solid performance, Rothmans Inc. shares continued to offer solid value to investors. The Company's shares traded at \$31.00 at year end, a 32% increase from the previous year, in contrast to the 3.2% increase in the TSX composite index.

Rothmans, Benson & Hedges Inc.

Operationally, RBH also achieved solid results. Composite market share for its products increased slightly in 2002 to 21.6% from 21.3% as a result of increases in fine cut product sales. RBH's fine cut products continued to lead the industry with 55.7% of the market.

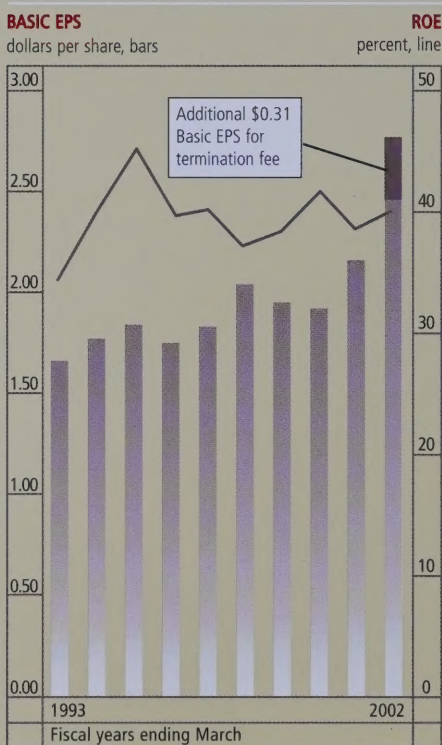
RBH's marketing efforts are showing progress and RBH remains committed to improving its performance through the innovative marketing of RBH's core brands — Benson & Hedges, Belvedere, Canadian Classics, Craven A, Rothmans, Belmont Milds and Viscount. RBH continued to develop new products, introducing four new Benson & Hedges products during the year.



Joe Heffernan, Chairman

TO OUR shareholders

ROTHMANS INC. CONTINUES TO GENERATE STRONG PROFITABILITY AND RETURNS.



Over the past decade, basic earnings per share for Rothmans have increased steadily attaining an all time high of \$2.46 before termination fee in fiscal 2002. Return on equity has averaged 35.6% over the period.

RBH leads the Canadian fine cut market through its continued innovation. RBH's fine cut products offer the best quality and value to roll-your-own smokers. During the year RBH introduced Belvedere and Number 7 Presto Pak 20's and Black Cat, Belvedere and Mark Ten in the Rolls 80% More format.

Challenging Regulatory Environment

RBH takes pride in running its business efficiently, responsibly and profitably. This is achieved in one of the most restrictive regulatory environments in the world, which limits marketing opportunities, bans advertising, significantly restricts sponsorships and imposes increasingly onerous packaging and other requirements. RBH has responded to these constraints by creating innovative marketing and sales programs. RBH's success shows that it is up to the challenge.

Large tax increases during the year are a particular cause for concern. We believe that tax rate increases must be moderate and gradual to avoid a resurgence of smuggling activities. Experience in Canada and internationally has shown that sharp tax increases lead to smuggling, hijacking and other undesirable activities – behaviour that damages the tobacco manufacturers, the government and ultimately society itself. The tobacco tax burden in Canada is already one of the highest in the world. Depending on the province, taxes can represent more than 70% of the consumer's purchase price, with the federal and provincial governments collecting an estimated \$6 billion in taxes annually. During the year, the federal government implemented two large tax increases, with several provincial governments following suit. Further, several provinces introduced substantial tobacco tax

TO OUR shareholders

increases on their own in recent months. For example, in Alberta, cigarette taxes were raised 129% to \$32.00 a carton, the largest single cigarette tax increase in Canadian history.

Rothmans has and will continue to oppose efforts to impose unreasonable and unjustifiable limits on its right to conduct business in Canada. We view these efforts as not only unfair to RBH and its many stakeholders, but as setting dangerous precedents for other businesses in our country. RBH has been a key supporter of the industry's constitutional challenge of the federal *Tobacco Act* and a decision of the trial court is expected later this year. RBH has also challenged recent legislation in Saskatchewan which restricts the display of tobacco products and attempts to "denormalize" the industry.

RBH will, of course, continue to work within the limits of the regulatory environment. While we expect it to become increasingly harsh, we are committed to continuing to deliver value for our shareholders.

Delivering Value

The advances we have made this year toward our goals of improving market share, increasing profitability and maximizing shareholder value are a direct result of the commitment we made to shareholders. RBH will continue to execute its strategy of building equity in key brands such as Benson & Hedges. We believe that certain brands have greater potential for growth and that focusing resources on a smaller number of brands will positively impact RBH's market share. We are slowly but surely seeing evidence of the success of this strategy.

Rothmans Inc. will continue to enhance disclosure, and to demonstrate leadership in corporate reporting. Our early adoption of disclosure on stock-based compensation programs (note 9) is one example of our commitment.

While we are very pleased with our core RBH business, Rothmans is also committed to looking for growth opportunities and will continue to assess alternative strategies for utilizing its current cash resources. During the past year, we increased our knowledge of the international tobacco industry and gained invaluable insights into markets outside of Canada. The accelerating trend of consolidation among international companies may put good tobacco assets on the market, thereby creating acquisition opportunities for Rothmans.

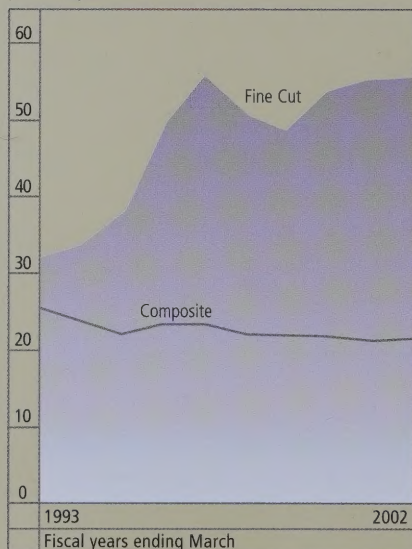
We will not, however, make an acquisition without ensuring that it meets a stringent list of requirements, all of which are focussed on enhancing shareholder value. Although we will explore opportunities that would further increase the value of our shareholders' investment, it must be the right opportunity, at the right time and at the right price.

Our watchword has been, and will continue to be, to navigate a steady course. We are proud of RBH's accomplishments and we're optimistic about the opportunities to continue to grow earnings from RBH's business.

TO OUR shareholders

RBH'S LEADING POSITION IN THE FINE CUT SEGMENT HAS HELPED IT MAINTAIN A RELATIVELY STABLE COMPOSITE MARKET SHARE OVER THE PAST SEVEN YEARS.

RBH MARKET SHARE
percentage



RBH has increased its share of the fine cut market segment from 32.1% to 55.5% over the past decade. In the current year, fine cut gains more than offset cigarette share declines, resulting in a slight increase in composite market share performance.

The employees of Rothmans Inc. and Rothmans, Benson & Hedges Inc. deserve our thanks for their outstanding contributions during the year. We are proud that RBH is recognized as one of the best companies to work for in Canada. We believe that creating a great place to work contributes to business success, producing better financial performance and higher shareholder returns.

We also want to thank the Board of Directors for their wise counsel and our shareholders for their ongoing support. We look forward to another year of strong financial performance and increasing value for Rothmans shareholders.

Joe Heffernan
Chairman of the Board

John Barnett
President and Chief Executive Officer

rothmans, benson & hedges inc.

Operations

Rothmans Inc. operates through its 60%-owned subsidiary, Rothmans, Benson & Hedges Inc. RBH is Canada's second largest tobacco company, manufacturing and selling cigarettes and fine cut tobacco and distributing pipe tobacco and mini cigar products.

RBH's operations move tobacco from the farmer's field to the retailer, supporting the Canadian economy and providing jobs at each step.

The process begins with the purchase of leaf tobacco. RBH purchases more than 95% of its tobacco in Ontario and Quebec, and is a strong supporter of Canadian tobacco growers and the Ontario auction system through which most tobacco is sold.

RBH processes leaf tobacco at its Brampton, Ontario and Quebec City, Quebec plants, with the Brampton facility being devoted to the production of expanded tobacco blends for use in cigarette and fine cut products. RBH's investment in process technology helps to maintain its leadership in the fine cut

segment by enabling RBH to produce superior quality fine cut blends. The Leaf, Research and Development Group is dedicated to ensuring RBH's products are of the highest quality.

RBH's main manufacturing facility in Quebec City processes leaf tobacco, and produces and packages high quality cigarettes and fine cut products. Here too, technology is key, ensuring flexibility, quality, and low-cost operations. Last year's early retirement program at the Quebec City plant contributed to new efficiencies that will result in annual cost savings of \$5.5 million. These personnel reductions were enabled through RBH's continued investment in infrastructure. RBH will continue to explore opportunities to manage manufacturing costs.

RBH's two plants produce, package and ship more than 10.2 billion cigarettes and equivalents to warehouses across the country. From these warehouses, products are distributed, through wholesalers, to over 36,000 retail outlets nationwide.



rothmans, benson & hedges inc.

Supporting these activities are approximately 780 employees that make up RBH's head office staff, its marketing department, sales force and manufacturing employees. Faced with vigorous competition for in-store display space, RBH uses sophisticated technology to focus its efforts and effectively manage a large volume of accounts. RBH is committed to building strong relationships with key wholesalers and retailers and providing superior customer service.

Shown below from left to right: Michael Frater - Director Finance, Paul Jewer - Vice President Finance & Administration, Jean Roberge - Director Materials & Logistics, Warren Finlay - Vice President Operations, Leaf & R&D, Jane Ngimat - Manager Fleet & Compensation, J.P. Suys - Vice President Human Resources, Teresa Lam Hon Wah - Manager SAP HR/Payroll System

RBH's success in operating efficiently and effectively is largely due to its dedicated employees. RBH works hard to provide its employees with a positive working environment and in turn, RBH enjoys satisfied and committed employees. In a recent survey of the Best Companies to Work for in Canada, RBH ranked 19th out of 161 participants.

RBH takes pride in this ranking, and will continue to work to earn the respect and loyalty of its employees. The company strongly believes that employees are its greatest source of sustainable competitive advantage. The culture, values and work environment that RBH has created play an important role in the company's extremely low employee turnover and its ability to develop leaders.



rothmans, benson & hedges inc.

Marketing & Sales

RBH focuses its marketing and sales activities on its key brands with the objective of increasing market share among adult consumers of tobacco products. RBH's top seven brands account for more than 90% of cigarette sales and, accordingly, RBH places a priority on marketing these brands - Benson & Hedges, Rothmans, Belmont, Canadian Classics, Craven A, Belvedere and Viscount.

RBH's marketing and sales programs are designed to make its brands available to adult smokers of competing products. This objective is being implemented through RBH's retail and bar programs, which provide a wider distribution network for RBH products. Although regulatory constraints on RBH's ability to communicate with adult consumers of tobacco products is a significant limitation, RBH is

committed to continuing its concerted marketing and sales efforts in order to achieve long term sustainable growth with Benson & Hedges and other key brands.

During the past year, positive results of RBH's efforts were evident despite an overall decline in industry shipments of tobacco products. RBH domestic cigarette share was maintained at 16.5% in fiscal 2002 compared to a decline of 1.0% in fiscal 2001. In addition, composite market share for RBH's products increased slightly in fiscal 2002, as volume increases in fine cut product sales offset the smaller cigarette market share decline.

Shown below from left to right: Rob Lisi - Manager Marketing, Franco Salituro - Vice President Marketing, Adina Onescu - Senior Associate Marketing Communications, Len Hruszowy - Director Marketing



RBH product families

percent of total sales

CIGARETTES
comprise approximately 67% of RBH's sales



rothmans, benson & hedges inc.

RBH continues to develop new products designed to satisfy adult consumer requirements. During the past year, four new Benson & Hedges products were introduced to the Canadian market: three Benson & Hedges Special regular length formats and Benson & Hedges Extra Mild King Size.

RBH continues to enhance its relationships with key accounts in the retail and bar distribution channels through its proprietary Business Edge, Retail Services Institute and National Bar programs. RBH is also continuing its sponsorship of live music and other events under the *Goldclub Series* sponsorship program which further assists in solidifying relationships with key bar, nightclub and pub retailers. Providing value added goods and services

programs to the retail and hospitality industry will be an important mainstay of RBH's ongoing marketing and sales efforts in an increasingly restrictive regulatory environment.

Shown below from left to right: Ron Funk - Vice President Sales, Derek Guile - Director of Sales Ontario, Erv Redman - Sales Director Tobacco Products Division, Bob Verrall - General Manager, Tobacco Products Division



our views ON industry issues

Why has RBH challenged government legislation?

RBH is committed to protecting and defending its rights. RBH has challenged, and will continue to challenge legislation which it believes infringes fundamental rights and freedoms, administrative fairness or is otherwise unconstitutional. RBH believes that effective tobacco control can only result from responsible, legally sound legislation. RBH will continue its attempts to work with governments to achieve this goal.

What is the RBH position on youth smoking?

RBH is adamantly opposed to the smoking of tobacco products by those under the age of majority. Smoking is an adult behaviour. Our marketing practices are designed to encourage those adults who have made the decision to smoke, to select RBH brands rather than those of our competitors.

RBH continues to support programs such as Operation ID and Operation ID School Zone which are designed to assist retailers in complying with their obligations to deny access to tobacco products to individuals under the legal age. Retailer compliance has been 10% higher than the national average in Operation ID School Zone communities, based on Health Canada commissioned surveys. RBH will continue to support these and other worthwhile programs.

Shown below from left to right: Bob Carew - Executive Vice President, Faryl Hausman - Vice President Corporate Affairs, Rhonda Yarin - Vice President General Counsel, Wendi Purchase - Supervisor Legal Compliance & Trademarks, John McDonald - Director Public Affairs, David Déry - Manager Public Affairs



our views ON industry issues

What is RBH's position regarding smoking and health issues?

RBH acknowledges the health risks which have been associated with smoking. The choice to smoke is made with full awareness of these risks, which have been widely known for decades. Information about these risks is widely available and warning messages have been displayed on tobacco packaging in Canada for approximately 30 years.

Is RBH against increased tobacco taxes?

RBH is not opposed to reasonable levels of taxation on tobacco products. Tobacco taxes are a tool of government, used to influence consumption and to raise revenues. The tobacco tax burden in Canada is one of the highest in the world where, depending on the province, more than 70 percent of the price of each package represents taxes. It is estimated that the federal and provincial governments collected in excess of \$6 billion in taxes on the sale of tobacco products manufactured or imported into Canada during the year - approximately 10 times the total profit of the three major Canadian manufacturers, making governments the senior financial partners in this industry.

Sound tax policy dictates that rate increases be moderate and gradual. In this manner, smuggling and associated crime can be mitigated. RBH is concerned however that large and sudden increases to higher tax levels, such as have occurred in Canada recently, will result in a resumption of smuggling of tobacco products. In addition, high taxes lead to increased incidence of significant product theft through retail store break-ins, truck hijackings and warehouse invasions.

What is the governments' new "denormalization" strategy?

Recently, federal and provincial governments added "denormalization" to their strategy for tobacco control. Denormalization attempts to change attitudes towards what is generally regarded as normal or acceptable behaviour. Accordingly, as opposed to education, governments appear to be adopting social policies and legislation designed to treat both smokers and the tobacco industry as "not normal".

The government maintains that denormalization campaigns were successfully employed to modify behaviour with respect to the use of automobile safety belts and to reduce driving after drinking. The use of government resources to "denormalize" illegal conduct may be justifiable, but government resources used to denormalize legal conduct and the use of a legal product can never be justified in a pluralistic and democratic society where people are free to make their own choices. RBH believes that adult consumers of tobacco products, tobacco retailers and other industry members enjoy a constitutional right not to be subjected to "denormalization" policies or tactics by governments or by non-governmental organizations funded by governments.

RBH has challenged the validity of legislation recently adopted in Saskatchewan which restricts the display of tobacco products in an attempt to "denormalize" the retail sale of a legal adult consumer product, and will in the future challenge all legislation based upon a "denormalization" strategy.

MANAGEMENT'S discussion AND analysis

Management's Discussion and Analysis of Financial Conditions and Results of Operations, or MD&A, provides shareholders with a review of significant developments in the Company's financial performance in the fiscal year ended March 31, 2002.

Throughout this MD&A, "Rothmans" and "the Company" refer to Rothmans Inc., "RBH" refers to Rothmans, Benson & Hedges Inc., which is 60%-owned by Rothmans Inc., "EBITDA" refers to earnings before interest, taxes, depreciation and amortization, and "EBITDA margin" refers to "EBITDA" as a percentage of sales net of duty and taxes, a key measure of the Company's financial performance.

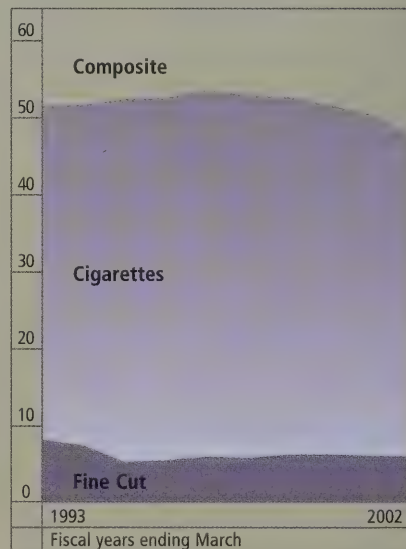
Forward Looking Statements

Certain statements contained herein, including MD&A, constitute "forward-looking statements". Words such as "plans", "projects", "intends", "outlook", "expects", "anticipates", "estimates", "believes" and similar expressions are intended to identify forward-looking statements. Forward-looking statements are based on current expectations and entail various risks and uncertainties. These risks and uncertainties include government claims and potential claims, product liability claims, changes in legislation and regulation, changes in taxation, declining sales volumes and dependence on price increases, dependence on the domestic tobacco business and competition. These risks and uncertainties could cause or contribute to actual results that are materially different from those expressed or implied. Additional information concerning factors that could cause actual results to materially differ from those in such forward-looking statements is contained in the Company's filings

DURING THE PAST YEAR, INDUSTRY VOLUMES EXPERIENCED A MORE SIGNIFICANT DECLINE THAN THE LONGER TERM TREND.

INDUSTRY VOLUME

billions of units and equivalent units



Composite industry volumes declined at a rate of 6.3% over the past year after returning to long-term industry decline rates of 1.7% since 1997. Next year the industry decline rate is expected to be approximately 4.0%. Fine cut products continue to show modest growth as they have increased from 9.9% of industry volume in 1995 to 12.5% in 2002.

MANAGEMENT'S discussion AND analysis

with securities regulatory authorities. The Company disclaims any obligation or intention to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Factors discussed in the MD&A include:

- the impact of rapidly increasing taxes on the Canadian tobacco industry;
- the industry volume decline rate;
- the recapitalization of RBH;
- the effect of merger termination fee;
- RBH's launch of Benson & Hedges trade-mark extensions in the regular length format;
- increase to the regular quarterly dividend; and
- increased profitability at RBH.

The Company

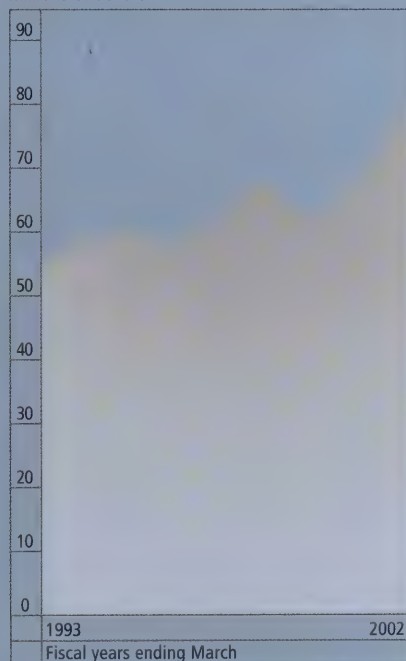
Rothmans participates in the Canadian tobacco products industry through its 60% ownership interest in Rothmans, Benson & Hedges Inc. The remaining 40% of RBH is owned by an affiliate of Philip Morris Companies Inc. Before non-recurring items, Rothmans financial results reflect those of RBH after minority interest, plus income generated by the Company's cash reserves, offset by the costs associated with operating Rothmans as a public company.

RBH is the second largest tobacco company in Canada with 21.6% share of the composite market and a leading position in the fine cut segment.

Rothmans is the only widely held Canadian public company with interests exclusively in the tobacco industry. Its shares are listed on the TSX under the symbol ROC.

ROTHMANS ACHIEVED RECORD EARNINGS IN FISCAL 2002.

ROTHMANS INC. NET INCOME millions of dollars



Consolidated net income for Rothmans Inc. grew from \$55.3 million in fiscal 1993 to a record \$81.2 million, before termination fee, in fiscal 2002, attaining an annual earnings growth of 4.4% over the past decade.

MANAGEMENT'S discussion AND analysis

Industry Overview

The Canadian tobacco industry has historically experienced gradually declining sales volumes. There are an estimated six million Canadians of legal age who choose to smoke. This base level of consumers has remained relatively constant over the past decade with population increases offsetting the declining rate of smoking.

Barriers to entry into the Canadian tobacco marketplace continue to be significant. Government regulation including a ban on advertising, significant restrictions on sponsorship activities, mandated health warnings, mandated product marking requirements, mandated product testing and reporting requirements, all against a backdrop of ever changing government priorities present challenges from both a cost and operating perspective. The net effect of these regulations is to effectively preclude international competition from entering the Canadian market. Competition based on price has historically been ineffective because high tobacco taxes can be more than 70% of the retail price paid by consumers. This has made it virtually impossible for manufacturers, even with significant reductions, to offer pricing that would generate significant consumer interest. However, there are regions and market segments within Canada that demonstrate a higher level of price sensitivity. In lower tax jurisdictions, we have continued to see movement by some of these price sensitive consumers to the discount cigarette brands offered by some of the smaller Canadian tobacco manufacturers.

Over the past year, the federal and various provincial governments have initiated significant increases in tobacco taxes as a means of sourcing revenue and appeasing the anti-tobacco lobby.

These increases were introduced even though past experience in Canada, and current experience in many international markets, shows a strong correlation between taxation rates and the development of illegal smuggling networks. Smuggling activity is a major social concern, it causes financial damage to the Canadian tobacco industry, and ultimately leads to a loss of taxation revenues for various levels of government. As a responsible corporate citizen, manufacturing a legal product, RBH has been consistently opposed to tobacco smuggling.

The aggregate annual volume decline rate for the three major tobacco companies over the past fiscal year was 6.3%, while RBH's volumes were down 5.2%. We believe that continued increases in smaller discount brands have led to 1% of this decline, while legislated changes in the export-duty free markets also contributed 1% of the decline. Adjustments to wholesalers' inventory levels in the fourth quarter may have also contributed to this decline. The balance of the decline in volumes over this period are believed to be the result of the ongoing long term decline in incidence and consumption of tobacco products. The potential effect of recent tax increases on the volume decline rate is not known. Demand for tobacco products is believed to be inelastic within a wide price range. However, this range is not unlimited, and the impact of the latest tobacco tax increases on the expected industry volume decline rate of 4% for next year is not known. A summary of shipments by the three major Canadian manufacturers for the year ended March 31, 2002, with comparatives, is shown below:

MANAGEMENT'S discussion AND analysis

Shipments

(in billion sticks equivalents)	Year ended March 31			
	2002		2001	
	RBH	Industry*	RBH	Industry*
Cigarettes	6.9	41.4	7.5	44.6
Fine Cut	3.3	5.9	3.3	5.9
Total	10.2	47.3	10.8	50.5
Market Share (%)	21.6		21.3	

* The above table is based on data obtained from Imperial Tobacco Limited and JTI Macdonald Corp. and does not include volumes distributed by small Canadian tobacco manufacturers. These manufacturers are currently estimated to represent approximately 4% of total domestic volumes. This share has grown over the past year, contributing to the volume erosion experienced by the three major manufacturers.

Recapitalization of Rothmans Benson & Hedges Inc.

On September 27, 2001 RBH was recapitalized. This involved a \$150 million reduction of RBH's share capital and the distribution of that amount to RBH's shareholders. The Company received \$90 million in respect of its 60% interest in RBH. The distribution was funded through a \$150 million unsecured five year term loan entered into by RBH with a Canadian bank syndicate. The Company has not provided any guarantee or security in respect of this term loan.

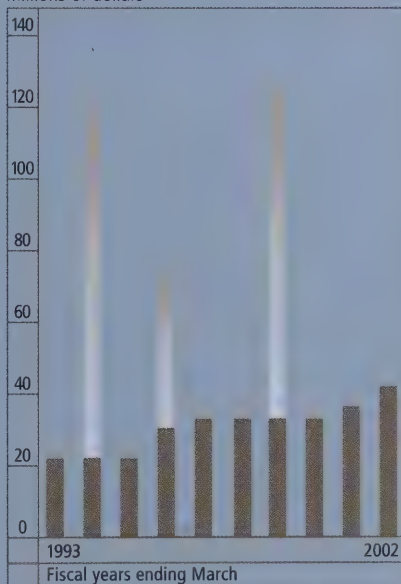
Rothmans Inc. Results

Rothmans' consolidated sales net of excise duty and taxes, for the year ended March 31, 2002 were \$562.5 million, representing an increase of \$24.3 million from the comparable period of the previous year. The Company's earnings before income taxes and minority interest for the year were \$245.2 million, an increase of \$39.8 million over the results generated in the comparable prior year period.

ROTHMANS SHAREHOLDERS HAVE RECEIVED A HIGH DIVIDEND YIELD OVER THE PAST 10 YEARS.

DIVIDEND PAYMENTS

millions of dollars



On an annualized basis, regular dividends have increased from \$0.67 per share in fiscal 1993 to \$1.50 per share in fiscal 2002.

Regular and special dividends paid over the past decade total \$544.3 million, or \$16.44 per share. Dividend yield has averaged 7.8% over the period.

MANAGEMENT'S **discussion** AND **analysis**

The Company's consolidated earnings for the year ended March 31, 2002 totaled \$91.5 million, which was \$20.0 million or 28.0% higher than in fiscal 2001. Annual earnings per share, excluding after-tax impact of merger termination fee, were \$2.46, up 14% compared with \$2.16 in the prior year. These current year earnings include a charge resulting from the elimination of 58 full-time positions at RBH's Quebec manufacturing facility which reduced earnings per share by \$0.13.

A merger termination fee, net of costs, contributed \$10.2 million or \$0.31 per share.

Total fiscal year investment income was \$4.9 million, compared to \$3.6 million in the prior year. This was in part a result of continued higher average cash balances held during the current year, partially offset by lower short-term interest rates.

Income tax expense for the year was \$100.8 million, resulting in an effective income tax rate of 41.1%, down from 42.2% in the prior year due primarily to the capital nature of the merger termination fee. Minority interest at \$53.0 million increased from \$47.4 million in fiscal 2001. The Company paid dividends of \$1.275 per share during the year, representing a 16% increase from \$1.10 paid in the prior year.

Results at Rothmans, Benson & Hedges Inc.

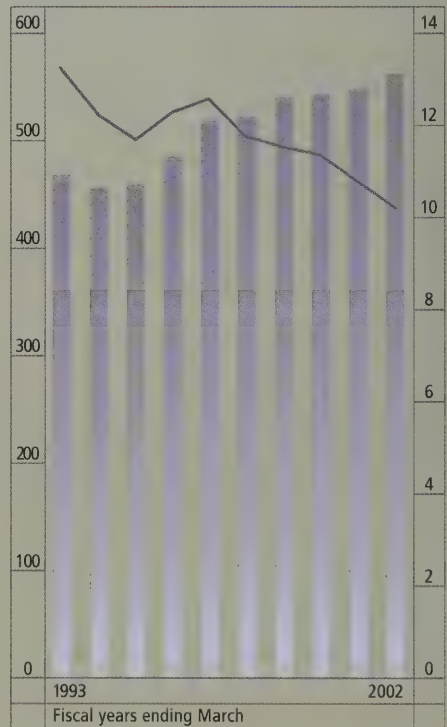
Net sales revenues for the year were higher than the previous year as a result of the continued impact of price increases partially offset by lower cigarette sales volumes.

RBH's composite market share for the year was 21.6% versus 21.3% for the comparable period of the prior year. Domestic cigarette market share for

RBH REVENUES CONTINUE TO INCREASE DESPITE DECREASING VOLUMES.

NET REVENUE
\$ millions, bars

SALES VOLUME
billions of sticks, line

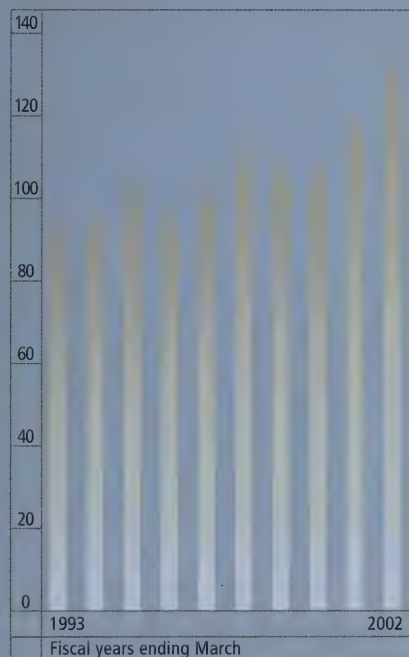


Since fiscal 1993, composite RBH sales volume has declined at a compound annual rate of 2.9% due to diminishing industry volumes and decreasing market share. Despite this and a shift in product mix towards lower-priced fine cut products, net sales revenues have grown an average 2.1% per year over the period.

MANAGEMENT'S discussion AND analysis

RBH NET INCOME REACHED A RECORD HIGH IN FISCAL 2002.

RBH NET INCOME millions of dollars



RBH net income grew to \$132.5 million in fiscal 2002, an increase of \$13.9 million (11.8%) over fiscal 2001 and 47% above the \$90.0 million generated in fiscal 1993. Over the past decade, earnings have grown at an annual rate of 4.4%.

the fiscal year of 16.5% was consistent with the 16.5% of the prior year. RBH continues to lead in its share of fine cut tobacco products among the three major Canadian manufacturers. RBH's share of the domestic fine cut market was 55.7% for the year consistent with 55.7% for the prior year.

RBH continues to experience declines in its Rothmans and Craven A brands. RBH's approach to building market share is to focus on brands that have demonstrated increased consumer acceptance within the marketplace - Benson & Hedges and other selected core trade-marks. In the first quarter of the fiscal year, RBH introduced a regular length cigarette to the market under the Benson & Hedges trade-mark. Regular length is the cigarette format of choice for a significant percentage of consumers, and was not previously available under the Benson & Hedges trade-mark. In addition to this product launch, RBH's innovative in-bar marketing programs continue to support core trade-marks resulting in encouraging market share growth in brands such as Benson & Hedges and Belmont.

As part of a continuing commitment to long-term reductions in operating costs, in fiscal 2002, RBH eliminated 58 full-time positions from the Quebec City manufacturing facility, resulting in savings of approximately \$1.5 million. These reductions were slightly less than originally announced in June, 2001. Beginning in fiscal 2003, ongoing annual savings of \$5.5 million are expected as a result of this downsizing.

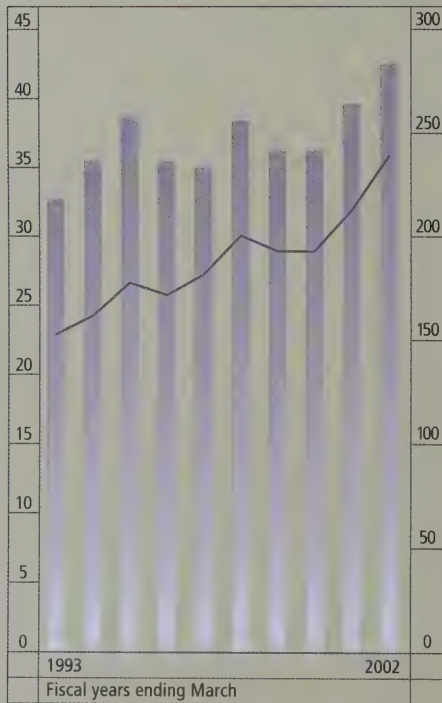
RBH's EBITDA margin for the year ended March 31, 2002 increased to 42.5% from 39.6% for the same period of the prior year, representing an absolute percentage increase of 2.9%. This increase in

MANAGEMENT'S
discussion
AND **analysis**

RBH ACHIEVED RECORD EBITDA IN FISCAL 2002.

EBITDA MARGIN
percent, bars

EBITDA
\$ millions, line



EBITDA has become one of the key indicators of profitability and financial health for public corporations. Since fiscal 1993, RBH's EBITDA has grown at a compound annual rate of 5.1%. Over the past decade, EBITDA margin has averaged 37.0%.

EBITDA margin was principally due to industry selling price increases and RBH cost saving initiatives, partially offset by a rationalization charge taken during the first quarter of fiscal 2002.

Liquidity and Capital Resources

Cash flow

The Company's consolidated operations generate significant cash flows. These are more than sufficient to fund interest payments on long-term debt, capital expenditures and dividends to shareholders, while continuing to accumulate cash reserves.

RBH maintained its level of cash flow from operations, before changes in working capital, at \$146.9 million for the year compared to \$130.7 million in the prior year. The Company expects that cash generated from RBH's operations, combined with its ongoing credit facilities and commercial paper program, will continue to be sufficient to meet the financing needs of RBH's business.

Cash resources

Cash and short-term investments of \$237.7 million, at year end represented the consolidated cash resources of the Company. At year end, cash held at the Rothmans Inc. level was \$235.6 million. Management is currently assessing alternative strategies for the ultimate use of these funds. Long-term debt of \$150 million represents RBH's five year term loan.

The Company and RBH continue to utilize a conservative approach to cash management, with the investments and borrowings of the companies being separately maintained.

MANAGEMENT'S discussion AND analysis

Dividends

Total dividends paid by the Company for the twelve months ending March 31, 2002 were \$42.2 million or \$1.275 per share compared to \$36.4 million or \$1.10 per share in the prior year. During the fourth quarter of the fiscal year, the Board of Directors of Rothmans Inc. announced an increase in the regular dividend from \$1.20 per share to \$1.50 per share on an annualized basis. This dividend represents a 50% increase since December 2000, and demonstrates the Company's continuing commitment to return value to its shareholders.

Normal Course Issuer Bid

On September 27, 2001, the Company obtained approval from the Toronto Stock Exchange to proceed with a normal course issuer bid to purchase up to 1,650,000 common shares during the year commencing on October 2, 2001. To date, no shares have been purchased under the bid.

Risk Management

Corporate risks are managed at the functional level with the oversight of a Risk Management Committee employing an enterprise-wide risk management methodology. Risk management is a continuous process and RBH has developed detailed crisis management and contingency plans and has purchased insurance to address and fund certain potential losses. More importantly, RBH adheres to certain standards, principles and operational practices to reduce risk exposure throughout the organization. For example, RBH works very closely with its property insurer to reduce exposure to loss. As part of this process, the insurer has developed a risk profile for RBH which scores very favourably in

relation to other insureds. Additionally, a number of initiatives were undertaken during the year to enhance RBH's risk management program.

Tobacco Taxation

Tobacco products are subject to significant taxes imposed by federal and provincial governments. Currently, these taxes can exceed 70 percent of the retail-selling price of cigarette products sold in Canada, depending on the jurisdiction. Taxes on tobacco products raise substantial revenues for both levels of government (estimated in excess of \$6 billion annually). Tobacco taxes are also used by governments as a policy tool in efforts to curtail consumption. However, it is clear that sharp tax increases promote smuggling. For example, due to substantial tax increases in the U.S., it has been estimated that approximately 1.8 billion contraband cigarette packages were consumed by Americans in 2000.

RBH meets with federal and provincial tobacco tax policy officials on a regular basis. RBH's advice, which is often shared by the government's own revenue and law enforcement agencies, is to avoid shocking the tobacco market into another round of smuggling activity through excessive tax increases. Accordingly, tobacco taxes should only be raised in regular and relatively modest steps.

In the years following the tax rollback in eastern Canada in 1994, the federal and participating provinces have been raising tobacco tax rates at relatively modest increments. Over the past year, this approach changed dramatically. The Alberta increase in March 2002 was the largest single cigarette tax increase in Canadian history, raising the price of a package of cigarettes in that province to almost \$9.00.

MANAGEMENT'S discussion AND analysis

Excessive tax increases of this nature are very disturbing. Not only is it an ill-conceived government policy, but it also encourages smuggling activities. The supply of tobacco products will simply shift from legal to illegal channels, bypassing constructive efforts to restrict access to the underaged. Contraband and counterfeit product sourced from countries such as China, distributed via the Internet and a network of individual carriers, will proliferate in a high tax environment. As well, truck hijackings, armed robbery and theft have been experienced in the past and can be expected to recur. In short,

governments are supporting such measures failing to recognize the inherent dangers stemming from excessive tax increases. To compound matters further several provinces also took the opportunity to increase fine cut tobacco taxes to a level consistent with cigarettes. This has the effect of reducing the legal product options available to price sensitive smokers.

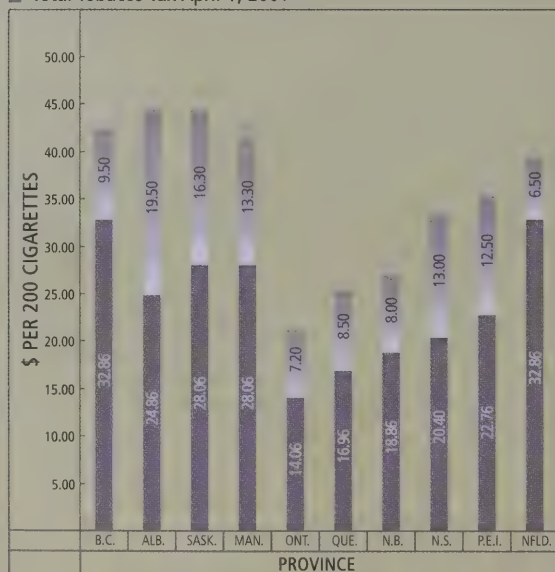
The tax hikes described appear to be driven by the misguided objective of bringing Canadian cigarette prices up to the high levels in certain northern U.S. states which are not representative of the U.S. market. Anti-smoking groups have been pushing this policy for some time on the mistaken belief that export restrictions imposed on Canadian manufacturers "shield the market" from illicit imports and, as a result, minimize exposure to imposing massive tobacco tax increases. This assumes that the differences in the taste characteristics of Canadian and U.S. cigarettes will effectively preclude Canadians from buying smuggled product sourced from the U.S. This has not proven to be the case in all instances. Also, the largest cigarette manufacturing market in the world, China, produces cigarettes with similar blend characteristics to those manufactured in Canada.

At time of writing the federal, Ontario and Quebec governments had not announced whether further tobacco tax increases would be implemented during calendar 2002. We encourage these governments to make sound policy decisions and reject large tax increases.

**FEDERAL AND PROVINCIAL TOBACCO TAX
INCREASES BY PROVINCE SINCE APRIL 1, 2001**

■ Increase

■ Total Tobacco Tax April 1, 2001



MANAGEMENT'S discussion AND analysis

Regulatory Environment

Canada is one of the most regulated environments in the world for the sale and promotion of tobacco products. Restrictive legislation governing virtually all aspects of tobacco product sales and promotion has been imposed by federal, provincial and municipal governmental authorities in Canada. This legislation, which effectively prohibits the direct or indirect promotion of tobacco products, also mandates the display of health warnings on tobacco product packaging, severely restricts sponsorships by tobacco product manufacturers, and requires reporting of prescribed information concerning tobacco products and their ingredients and emissions.

Government legislation also regulates the display of tobacco products by retailers, requires tobacco retailers to post prescribed signage relating to tobacco products and restricts or prohibits smoking in the workplace and other environments.

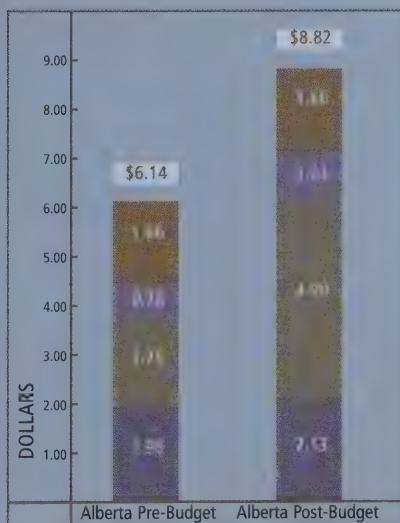
Legislation enacted in Saskatchewan in 2002 prohibits the display of tobacco products and any advertising or promotion of tobacco products in any location, including retail stores, to which persons under the age of 18 have access. RBH has recently initiated a challenge of the validity of this legislation on constitutional grounds.

Legislation enacted in British Columbia, Newfoundland and Labrador and Ontario purports to allow the provincial government in its own right to bring an action against tobacco product manufacturers for recovery of health care costs that allegedly have been, or will be, incurred by the province in respect of alleged smoking-related illnesses.

The federal legislation currently in force, the Tobacco Act, was enacted in April 1997. This followed a successful challenge (decided in 1995 by the Supreme Court of Canada) by the industry of the constitutional validity of many provisions of predecessor legislation, the Tobacco Products Control Act, enacted in 1989. The industry is currently challenging the constitutional validity of the Tobacco Act and a decision of the trial court is expected later this year.

DOLLAR SHARE PER PACK OF 25 CIGARETTES USING ALBERTA AS REPRESENTATIVE PROVINCE

- Manufacturer Contribution⁽¹⁾
- Wholesale/Retail Margin
- Provincial Tobacco Tax
- Federal Tobacco and Sales Taxes



(1) Manufacturer Contribution includes all costs to produce and sell the cigarettes (e.g. leaf, materials, labour, overhead, corporate and payroll taxes, etc.), plus profit.

MANAGEMENT'S discussion AND analysis

The Tobacco Products Information Regulations implemented under the Tobacco Act in 2001 require that most tobacco product packages display 16 different warnings occupying 50% of the principal display surface of most tobacco product packages. These regulations also require tobacco product manufacturers to display additional information concerning the constituents and emissions from tobacco products on the sides of most tobacco product packages and to display prescribed health information messages on the inside of the packages or on a leaflet included in the package.

The Tobacco Reporting Regulations require tobacco product manufacturers to provide detailed reports to Health Canada regarding the components and constituents of tobacco products and their emissions, sales and distribution of tobacco products and tobacco product accessories and research activities undertaken with respect to tobacco products. These regulations also impose reporting requirements for tobacco product manufacturers regarding permitted promotional and sponsorship activities.

Restrictive legislation and regulations enacted by all levels of government has proliferated in recent years and limits the ability of RBH to compete for market share and adds significant costs to RBH's operations in terms of both increased expenses and reduced operating efficiencies. If RBH is unable to effectively market its products and compete for market share, or if the costs of compliance with government legislation and regulation cannot be absorbed through increased selling prices for its products, RBH's sales and operating results will be adversely affected.

Litigation

Various legal actions, proceedings and claims arising out of the sale, distribution, manufacture, development, advertising and marketing of tobacco products are pending, have been threatened or may be instituted against the Company and RBH. Since 1995, there has been an increase in the number of these claims, which include government actions for recovery of health care costs allegedly incurred in respect of smoking-related illnesses. Certain of these legal actions involve attempts by plaintiffs to proceed by way of class action, and punitive damages are specifically pleaded in a number of cases in addition to compensatory and other damages.

These claims remain at an early stage and involve complicated and novel questions of law that may take several years to resolve. The Company and RBH believe that they have good defences to these claims and intend to vigorously defend such claims and attempts to certify the class actions. Accordingly, the Company is unable to meaningfully estimate the amount or range of loss that might result from these claims. The scope of the purported class actions remains unclear however, and if the plaintiffs succeed in having any of the class actions certified, such actions could involve a large but indeterminate number of people, in some cases ranging in the millions. If successful, these claims, either individually or in the aggregate, could involve significant damages which would have a significant adverse effect on the financial condition of the Company, and the Company and RBH may not have the resources to satisfy such claims.

MANAGEMENT'S discussion AND analysis

Further information concerning the claims affecting the Company and RBH is contained in note 14 to the Consolidated Financial Statements of the Company.

In addition to these claims, the Company is monitoring other legal proceedings affecting the industry. These claims include a potential class action currently proceeding against another Canadian tobacco product manufacturer for damages alleging that a tobacco product caused a fire resulting in injury and/or death of the plaintiffs and that the defendant was negligent in failing to sell a fire-safe cigarette. The Company is also monitoring a claim for damages brought in Ontario Small Claims court which was originally dismissed but is now under appeal and a claim brought in Ontario based on the payment of plaintiff's counsel by way of contingency fees, an arrangement which is not generally available with respect to personal injury claims in Ontario.

Outlook

Continued strength in Rothmans financial performance will be dependent upon a number of factors, including:

- the impact of the recently announced provincial tobacco tax increases on consumer purchasing patterns;
- the impact of any future provincial or federal tax increases;
- increased levels of smuggling caused by the onerous tax environment;
- the continued success of RBH's efforts to stabilize its market share in cigarettes through innovative adult marketing programs focused on key brands;
- RBH's continued market leadership in the fine cut segment;
- the potential for added revenues from selling price increases; and
- the success of efforts by RBH and the industry to defend themselves from unconstitutional governmental and regulatory impairment of the right to conduct business, as well as from litigation.

Rothmans has a strong balance sheet with more than sufficient cash flow and resources to service its ongoing obligations. The Company has demonstrated its commitment to increasing shareholder returns, and is committed to exploring other potential investment opportunities, in conjunction with RBH's continuing attention to its core brand strategy.

quarterly data

Quarter ended (in thousands of dollars)	Jun 30	Sep 30	Dec 31	Mar 31	Total for the Year
SALES (net of excise duty and taxes)					
2001 - 2002	\$ 133,898	\$ 151,862	\$ 148,563	\$ 128,213	\$ 562,536
2000 - 2001	\$ 137,815	\$ 136,307	\$ 134,835	\$ 129,279	\$ 538,236
EARNINGS					
2001 - 2002	\$ 15,134	\$ 24,065	\$ 24,643	\$ 27,642	\$ 91,484
2000 - 2001	\$ 17,972	\$ 17,878	\$ 18,949	\$ 16,665	\$ 71,464
EARNINGS PER COMMON SHARE					
2001 - 2002	\$ 0.46	\$ 0.73	\$ 0.75	\$ 0.83	\$ 2.77
2000 - 2001	\$ 0.54	\$ 0.54	\$ 0.57	\$ 0.51	\$ 2.16

management's report

auditors' report

The consolidated financial statements of Rothmans Inc. and its subsidiary companies have been prepared by management and are in accordance with generally accepted accounting principles in Canada. The significant accounting policies are outlined in note 1. All other financial and operating information in the annual report is consistent with that contained in the consolidated financial statements.

Management is responsible for maintaining a system of internal accounting controls which provides reasonable assurance that assets are safeguarded and that reliable financial information is produced. Management believes that existing internal controls are appropriate in terms of cost and risk to meet these objectives. Internal auditors employed by the Company and its subsidiaries monitor accounting records and related systems.

PricewaterhouseCoopers LLP were appointed by the shareholders at the 2001 annual meeting as independent auditors to examine and report on the Company's consolidated financial statements and their report appears on this page. As part of their examination, PricewaterhouseCoopers LLP reviewed internal control systems to the extent deemed necessary to support their opinion on such consolidated financial statements.

The Company's Board of Directors has overall responsibility for and has approved the consolidated financial statements and all other information in the annual report. The Board has appointed an Audit Committee consisting of six directors to review the audited consolidated financial statements prior to their submission to the full Board. The Committee also meets periodically throughout the year with Company officials, internal auditors and PricewaterhouseCoopers LLP.



President and Chief Executive Officer
May 23, 2002

To The Shareholders of Rothmans Inc.

We have audited the consolidated balance sheets of Rothmans Inc. as at March 31, 2002, 2001 and 2000 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2002, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Toronto, Ontario
May 8, 2002

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

Year ended March 31 (in thousands of dollars, except per share data)

EARNINGS

Revenues:

Sales, net of excise duty and taxes

\$ 562,536 \$ 538,236 \$ 533,219

Investment income

4,851 3,639 1,732

Other income (note 13)

12,420 - -

Total revenues

579,807 541,875 534,951

Costs:

Operating Costs

325,938 327,697 342,670

Amortization (note 5, 7)

6,282 9,039 5,604

Long-term debt interest expense (note 7)

3,652 - -

Other interest (income) expense (note 6)

(1,314) (345) 197

Total costs

334,558 336,391 348,471

Earnings before income taxes and minority interest

245,249 205,484 186,480

Income taxes (note 11) - current

99,826 86,900 80,317

- future

932 (250) 44

Income taxes

100,758 86,650 80,361

Earnings before minority interest

144,491 118,834 106,119

Minority interest

53,007 47,370 42,662

Earnings for the year

\$ 91,484 \$ 71,464 \$ 63,457

Earnings per common share (notes 1,2,3)

- Basic

\$ 2.77 \$ 2.16 \$ 1.92

- Diluted

\$ 2.74 \$ 2.15 \$ 1.92

RETAINED EARNINGS

Balance at beginning of year

175,927 140,834 109,561

Earnings for the year

91,484 71,464 63,457

267,411 212,298 173,018

Dividends Paid:

Common Shares

(2002 - \$1.275 per share

2001 - \$1.10, 2000 - \$1.00)

(42,176) (36,371) (33,064)

Balance at end of year

\$ 225,235 \$ 175,927 \$ 139,954

CONSOLIDATED BALANCE SHEETS

March 31 (in thousands of dollars)		2002	2001	2000
ASSETS	Current Assets			
	Cash and cash equivalents	\$ 37,711	\$ 75,147	\$ 33,510
	Short-term investments	200,000	—	4,938
	Accounts receivable	52,007	61,803	52,053
	Inventories (note 4)	164,886	172,943	194,510
	Prepaid expenses	1,992	2,595	2,578
	Total current assets	456,596	312,488	287,589
	Property, plant and equipment (note 5)	49,980	46,592	48,933
	Future income taxes (note 11)	7,925	8,857	7,727
	Other assets	12,443	13,947	14,474
		<u>\$ 526,944</u>	<u>\$ 381,884</u>	<u>\$ 358,723</u>
LIABILITIES	Current Liabilities			
	Bank indebtedness (note 6)	\$ -	\$ 9,000	\$ 26,000
	Accounts payable and accrued liabilities	37,349	35,206	36,510
	Excise and other taxes payable	22,340	18,630	15,981
	Income taxes payable	27,805	24,960	24,177
	Total current liabilities	87,494	87,796	102,668
	Other employee future benefits (note 10)	24,701	20,744	17,743
	Long-term debt (note 7)	150,000	—	—
	Minority interest in subsidiary company	11,475	70,068	71,009
		<u>273,670</u>	<u>178,608</u>	<u>191,420</u>
SHAREHOLDERS' EQUITY	Capital stock (notes 8, 9)	28,039	27,349	27,349
	Retained earnings	225,235	175,927	139,954
	Total shareholders' equity	253,274	203,276	167,303
		<u>\$ 526,944</u>	<u>\$ 381,884</u>	<u>\$ 358,723</u>

Approved by the Board:



Director



Director

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended March 31 (in thousands of dollars)

Cash provided by (used in):

	2002	2001	2000
OPERATING ACTIVITIES			
Earnings for the year	\$ 91,484	\$ 71,464	\$ 63,457
Adjusted for non-cash items-			
Amortization (note 5, 7)	6,282	9,039	5,604
Minority interest	53,007	47,370	42,662
Future income taxes (recovery)	932	(250)	44
Loss on disposal of property, plant and equipment	93	112	37
Employee future benefits	6,883	3,767	1,898
	158,681	131,502	113,702
Changes in non-cash operating working capital	25,576	13,689	1,923
	184,257	145,191	115,625
INVESTING ACTIVITIES			
Proceeds on sale of property, plant and equipment	30	35	35
Additions to property, plant and equipment	(9,637)	(6,845)	(8,082)
(Purchase) sale of short-term investments	(200,000)	4,938	6,300
	(209,607)	(1,872)	(1,747)
FINANCING ACTIVITIES			
Dividends paid-			
By the Company	(42,176)	(36,371)	(33,064)
By a subsidiary company to minority shareholder	(51,600)	(48,311)	(44,528)
Distribution of capital by a subsidiary company to a minority shareholder	(60,000)	-	-
Proceeds on issuance of long-term debt	150,000	-	-
Proceeds on issuance of common shares	690	-	-
Repayment of bank indebtedness	(9,000)	(17,000)	(16,100)
	(12,086)	(101,682)	(93,692)
Increase (decrease) in cash and cash equivalents	(37,436)	41,637	20,186
Cash and cash equivalents at beginning of year	75,147	33,510	13,324
Cash and cash equivalents at end of year	\$ 37,711	\$ 75,147	\$ 33,510
SUPPLEMENTARY DISCLOSURES			
Income taxes paid	\$ 96,851	\$ 85,585	\$ 65,855
Interest paid - Long term debt	5,045	-	-
- Other	112	520	787

consolidated financial statements

(Tabular amounts are in thousands of dollars)

1. Summary of Significant Accounting Policies

The consolidated financial statements of Rothmans Inc. (the "Company") are prepared on the historical cost basis in accordance with accounting principles generally accepted in Canada.

a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all subsidiaries including its 60% owned subsidiary, Rothmans, Benson & Hedges Inc. ("RBH").

b) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Although these estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future, actual results could differ from these estimates.

c) Inventories

Inventories are stated at the lower of cost and net realizable value.

d) Property, Plant and Equipment

Property, plant and equipment are recorded at the lower of cost and net recoverable value. Amortization is provided on a straight-line basis over the estimated service lives of the assets, which are as follows for the principal asset categories:

Land improvements	-	10 years
Buildings	-	30 years
Machinery and equipment	-	3 to 10 years
Motor vehicles	-	5 years
Leasehold improvements	-	term of lease; not to exceed 10 years

e) Employee Future Benefits

The cost of pension benefits earned by employees covered under defined benefit plans is determined using the projected benefit method pro-rated on service, and is charged to expense as services are rendered. Adjustments arising from plan amendments, changes in assumptions, experience gains and losses and the net pension assets are amortized on a straight-line basis over the estimated average remaining service lives of the employee groups, using the corridor approach. Defined benefit pension plan assets are recorded at fair value. The cost of post-employment benefits other than pensions is recognized on an accrual basis over the working lives of employees.

NOTES TO consolidated financial statements

(Tabular amounts are in thousands of dollars)

f) Future Income Taxes

Future income tax assets and liabilities are recorded on the difference between the accounting carrying values of balance sheet assets and liabilities and the tax cost basis of these assets and liabilities based on substantively enacted tax laws and rates.

The Company reviews the value of its future income tax assets and liabilities quarterly and records adjustments, as necessary, to reflect the realizable amounts of its future income tax assets and liabilities. The Company expects that it will realize its future income tax assets and liabilities in the normal course of operations.

g) Marketing

Marketing costs, including those related to the introduction of new brands, are charged against earnings during the year in which they are incurred.

h) Earnings Per Common Share

Earnings per common share is calculated based on the weighted average number of shares outstanding during the year (note 3, 8).

i) Stock Based Compensation Plans

The Company has stock based compensation plans as described in note 9. No compensation expense is recognized when stock options are issued to employees. Consideration paid by employees on exercise of stock options is credited to share capital when the options are exercised. The Company's contributions under the employee share purchase plan are charged to earnings as purchases are made.

j) Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash and short-term deposits with original maturities of three months or less.

k) Forward Contracts and Interest Rate Swaps

Interest rate swaps are used to change the interest rate on a portion of the outstanding debt from floating rate to fixed rate. This type of interest rate swap involves the receipt of floating rate amounts in exchange for fixed rate interest payments based on an underlying notional principal amount over the life of the swap agreement.

Foreign currency forward contracts are used to hedge the risk of certain foreign currency transactions. There is a policy of not using financial instruments for speculative purposes and procedures are in place to monitor and control their use.

consolidated financial statements

(Tabular amounts are in thousands of dollars)

2. Changes in Accounting Policies

Effective April 1, 2001, the Company adopted on a retroactive basis, the provisions of the new Canadian Institute of Chartered Accountants "CICA" Handbook Section 3500 "Earnings Per Share" which requires the use of the treasury stock method for calculating diluted earnings per share. Diluted earnings per share have now been shown separately on the statement of earnings for both the current and comparative prior periods.

Although not required until next fiscal year, the Company has implemented early adoption of Section 3870 of the CICA Handbook titled Stock-Based Compensation and other Stock-Based Payments. The adoption of this section has had no impact on the earnings of the Company.

3. Earnings per Share

Earnings per common share is calculated based on a weighted average number of 33,070,830 shares outstanding during the year versus 33,064,104 in fiscal 2001. Diluted earnings per common share is calculated based on 33,356,066 common shares outstanding versus 33,178,182 in fiscal 2001, the dilution being due to issued common share options.

4. Inventories

	2002	2001	2000
Leaf tobacco	\$ 82,124	\$ 85,920	\$ 90,167
Finished goods	61,402	66,319	81,616
Packaging material and other	21,360	20,704	22,727
	\$164,886	\$172,943	\$194,510

5. Property, Plant and Equipment

Cost	2002	2001	2000
Land and land improvements	\$ 1,501	\$ 1,501	\$ 1,501
Buildings	23,358	21,279	20,997
Machinery and equipment	129,894	123,476	119,216
Motor vehicles	1,024	1,031	1,009
Leasehold improvements	3,532	3,200	3,242
	159,309	150,487	145,965
Accumulated amortization	109,329	103,895	97,032
	\$ 49,980	\$ 46,592	\$ 48,933

consolidated financial statements

(Tabular amounts are in thousands of dollars)

Accumulated amortization	2002	2001	2000
Land improvements	\$ 119	\$ 109	\$ 99
Buildings	11,816	11,197	10,653
Machinery and equipment	93,849	89,117	82,483
Motor vehicles	986	949	900
Leasehold improvements	2,559	2,523	2,897
	\$109,329	\$103,895	\$ 97,032

6. Bank and Other Short-Term Indebtedness

	2002	2001	2000
Bank indebtedness	\$ -	\$ 9,000	\$ 26,000

Other interest income is net of related interest expense of \$160,000 (2001 - \$578,000).

7. Long-term debt

On September 27, 2001, RBH reorganized its capital structure by reducing its share capital by \$150 million and distributing that amount to its shareholders. This distribution was funded through a \$150 million, five-year, unsecured floating rate term loan entered into with a Canadian bank syndicate, which can be prepaid in whole or in part at any time at the option of RBH with the principal coming due on September 28, 2006. The floating rates approximate the prime rate plus 0.5 percent or bankers acceptances plus 1.5 percent. Total financing costs related to the \$150 million term loan are being amortized over the term of the loan. As at March 31, 2002, \$1.48 million of costs were remaining with \$156,000 having been amortized in the current year.

Interest rate risk on the long-term debt is managed via interest rate swaps in order to effectively maintain a mix of fixed and floating rate debt.

consolidated financial statements

(Tabular amounts are in thousands of dollars)

As at March 31, 2002 the fair value of the interest rate swap contract was Cdn \$2,342,332. The weighted average interest rate after the swap contract, during fiscal 2002, was 4.77%.

The following table details the interest rate swaps and rates of interest as at the balance sheet dates.

	2002	2001	2000
SWAP			
Notional amount	\$ 75,000*	-	-
Weighted average floating rate	3.7721%	-	-
Weighted average fixed rate	5.7400%	-	-

* The swap contract in place is based on a notional amount of \$75 million until September 28, 2004, dropping to \$45 million until September 28, 2006.

8. Capital Stock

Authorized An unlimited number of common shares

Issued 33,109,104 (2001 & 2000 - 33,064,104) common shares

	2002	2001	2000
Balance as at April 1	\$27,349	\$27,349	\$27,349
Issuance of shares	690	-	-
Balance as at March 31	\$28,039	\$27,349	\$27,349

During fiscal year 2002, a total of 45,000 shares were issued due to the exercise of stock options.

9. Stock-based compensation plans

The details of the Company's share option plan and employee share purchase plan are as follows:

a) Share Option Plan

In March of 2000, the Board of Directors of the Company approved a share option plan for the purpose of advancing the interests of the Company through the attraction, motivation and retention of employees and officers of the Company and RBH. This Plan was subsequently approved by the Company's shareholders at the Annual General Meeting in July, 2000.

consolidated financial statements

(Tabular amounts are in thousands of dollars)

No compensation cost has been recognized for these plans. Had compensation cost for the Company's stock-based compensation plans been determined based on the fair value method, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

		2002	2001	2000
Net income	As reported	91,484	71,464	63,457
	Pro forma	89,688	71,026	62,083
Basic earnings per share	As reported	2.77	2.16	1.92
	Pro forma	2.71	2.15	1.88
Diluted earnings per share	As reported	2.74	2.15	1.92
	Pro forma	2.69	2.14	1.88

The Company may grant options to its employees for up to 1.7 million shares of common stock. The exercise price of each option equals the market price of the Company's common stock as at the date of the grant. Granted options vest in three equal amounts as the twenty day average trading price of the Company's shares exceeds thresholds of 10%, 20% and 30% above the option exercise price. Generally, vested options may be exercised over a 10 year period from the date of grant. In certain circumstances upon exercise, optionees are also entitled to receive an amount equal to the aggregate of all special dividends paid since the date of the option grant.

The fair value of each option grant was estimated on the date of grant using the Binomial option pricing model with the following assumptions:

	2002	2001	2000
Risk-free interest rate (%) *	5.12	5.88	6.14
Dividend yield (%)	5.00	5.00	5.00
Expected lives (years)	6	6	6
Volatility (%)	25	25	25

* The Risk-free interest rate is a weighted average of the Risk-free interest rates on the date of grant.

consolidated financial statements

(Tabular amounts are in thousands of dollars)

A summary of the status of the Company's employee stock option plan as of March 31, 2002, 2001 and 2000, and changes during the years ending on those dates is presented below:

Options	2002		2001		2000	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding at beginning of year	576,500	\$ 15.095	453,500	\$ 14.500	-	-
Granted	365,700	25.070	123,000	\$17.288	453,500	14.50
Exercised	45,000	15.333	-	-	-	-
Forfeited	-	-	-	-	-	-
Outstanding at end of year	897,200	\$ 19.149	576,500	\$ 15.095	453,500	\$ 14.50
Options exercisable at year end	799,400	\$ 18.046	576,500	\$ 15.095	-	-
Weighted average fair value of options granted during the year		\$4.91		\$3.56		\$3.03

The following table summarizes information about stock options outstanding as at March 31, 2002:

Range of exercise price	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$14.50 - \$17.65	531,500	7.7	\$ 15.075	531,500	\$ 15.075
\$23.00	219,000	9.1	23.000	219,000	23.000
\$28.16	146,700	9.5	28.160	48,900	28.160
	<u>897,200</u>				

consolidated financial statements

(Tabular amounts are in thousands of dollars)

b) Employee Share Purchase Plan

The Company has an employee share purchase plan in place to assist employees in taking an ownership position in the Company. This plan promotes employee participation in the business, and thus better aligns their interests with the interests of shareholders. The Plan allows every employee to contribute between 1% to 5% of their base salary towards the purchase of shares. The Company contributes 35% of each employee's contributions, up to \$1,500 per annum. Contributed funds are utilized to purchase the Company's shares on the open market. The Company also pays for all fees and transaction costs associated with the purchases.

As at March 31, 2002, a total of 81,862 shares (2001 - 46,700 shares) of the Company are held under the provisions of this plan.

10. Employee Future Benefits

The Company provides pension (including both defined benefit and contribution plans), post employment, and post retirement benefits which in aggregate are considered employee future benefits. Defined benefit pension obligations are funded with independent trustees in accordance with legal requirements. As at March 31, 2002 the defined benefit and defined contribution plan assets were \$142,596,000 and \$63,544,000 respectively.

The table below provides plan information on the actuarially determined benefit obligation, the status of plan assets, the net benefit plan expense for the year, and the significant actuarial assumptions used to arrive at the net benefit obligation.

	2002		2001	
	Defined Benefit Pensions	Other Benefits	Defined Benefit Pensions	Other Benefits
Change in benefit obligation				
Benefit obligation at beginning of year	\$106,094	\$ 27,485	\$ 87,562	\$ 25,838
Current service cost	3,622	1,265	3,172	1,246
Interest cost	8,368	2,134	7,208	1,896
Plan amendments	-	-	6,994	-
Cost for retirement window adjustment	6,153	805	1,860	-
Actuarial loss	6,237	3,694	4,246	-
Benefits paid	(7,585)	(1,848)	(4,948)	(1,495)
Benefit obligation at end of year	122,889	33,535	106,094	27,485

consolidated financial statements

(Tabular amounts are in thousands of dollars)

Change in plan assets

Fair value of plan assets at beginning of year	135,296	1,559	121,653	2,117
Return on plan assets	10,687	(128)	15,913	162
Net employer contributions	4,198	1,048	2,678	775
Benefits paid	(7,585)	(1,848)	(4,948)	(1,495)
Fair value of plan assets at end of year	142,596	631	135,296	1,559

Plan status

Funded surplus (deficit)	19,707	(32,904)	29,202	(25,926)
Unrecognized (gain) loss	(10,976)	8,203	(17,216)	5,182
Prepaid (accrued) benefit cost	\$ 8,731	\$(24,701)	\$ 11,986	\$(20,744)

Weighted-average assumptions as of March 31, 2002

Discount rate	6.75%	7.00%	7.25%	7.25%
Expected return on plan assets	8.00%	7.50%	8.00%	7.50%
Rate of compensation increase	5.00%	5.00%	5.00%	5.00%

The health care cost trend rates used were 9.5% for medical, which is graded down to 4.5% per year after 5 years.

The Company's defined benefit pension plan and other benefits expense is as follows:

	2002		2001	
	Defined Benefit Pensions	Other Benefits	Defined Benefit Pensions	Other Benefits
Current service cost	\$ 3,622	\$ 1,265	\$ 3,172	\$ 1,246
Interest cost	8,368	2,134	7,208	1,896
Expected return on plan assets	(9,983)	128	(9,121)	(162)
Amortization of plan (gains) losses	(706)	875	(818)	796
Cost for retirement window adjustment	6,153	805	1,860	—
	\$ 7,454	\$ 5,207	\$ 2,301	\$ 3,776

The Company's defined contribution pension plan expense for the fiscal year 2002 was \$2,825,000 (2001 - \$2,921,000).

As at March 31, 2002, approximately 57% (2001 - 56%) of all pension plan assets were invested in equities, 38% (2001 - 41%) in fixed income securities, and 5% (2001 - 3%) in cash and cash equivalents.

consolidated financial statements

(Tabular amounts are in thousands of dollars)

11. Income Taxes

The consolidated effective income tax rate is made up as follows:

	2002	2001	2000
	%	%	%
Combined federal and provincial basic rates	38.5	40.4	40.9
Manufacturing and processing tax credits	(3.7)	(4.6)	(5.1)
Surtaxes and other	6.3	6.4	7.4
Non-taxable dividends	-	-	(0.1)
Effective income tax rate	41.1	42.2	43.1

Future income tax assets and liabilities are recognized on temporary differences between the financial and tax bases of existing assets and liabilities as follows:

	2002	2001	2000
Future income tax assets:			
Property, plant and equipment	\$ 2,315	\$ 2,738	\$ 2,954
Other Employee future benefits	8,854	7,650	7,275
Other	394	3,278	2,439
	11,563	\$ 13,666	\$ 12,668
Future income tax liabilities:			
Pension asset	3,638	4,809	4,941
Net future income tax asset	\$ 7,925	\$ 8,857	\$ 7,727

12. Commitments

In the normal course of business, the Company and its subsidiaries have commitments in respect of capital expenditures, purchase of tobacco and sponsorship obligations.

Commitments under operating lease obligations relate to fleet automobiles, warehouses and offices. The following table summarizes the minimum lease payments due after March 31, 2002:

Year ending –	
2003	\$ 4,282
2004	3,409
2005	2,196
2006	1,831
2007	1,580
Years subsequent to 2007	7,540
	<u>\$20,838</u>

consolidated financial statements

(Tabular amounts are in thousands of dollars)

13. Termination of the Agreement to Acquire the Santa Fe Natural Tobacco Company

On September 27, 2001 the Company announced that it had entered into an agreement to acquire 100% of the shares of privately-held Santa Fe Natural Tobacco Company Inc. ("Santa Fe"). Under the terms of the agreement, if Santa Fe completed an alternative transaction, initiated within specified time periods, the Company was entitled to receive, subject to certain conditions, varying termination fees.

In December 2001, the Company's agreement to acquire Santa Fe was terminated as a result of a competing offer from R.J. Reynolds Tobacco Holdings Inc. ("RJR"). In accordance with the agreement, Santa Fe paid the Company a termination fee of US\$3.0 million at the time of termination and US\$8.25 million upon completion of the RJR transaction on January 25, 2002. The termination of the agreement resulted in a net amount of Cdn \$12.4 million, representing \$18 million in proceeds less \$5.6 million in transaction related costs.

14. Litigation, Claims and Contingencies

The Company and RBH are subject to a number of claims and potential claims as described below:

- On January 13, 1995, an action was commenced in the Ontario Superior Court of Justice against RBH, Imperial Tobacco Limited and JTI-Macdonald Corp. by originally three – and now four – individual plaintiffs who are seeking to certify the action as a class action. The plaintiffs claim, on their own behalf and on behalf of each potential class member, damages in the amount of \$1,000,000 in addition to aggravated, punitive and exemplary damages and a mandatory order for the creation and funding of nicotine addiction rehabilitation centres for those allegedly addicted to nicotine.
- On May 1, 1997, a statement of claim was issued against RBH and Imperial Tobacco Limited by a single plaintiff, Mirjana Spasic, in the Ontario Superior Court of Justice claiming damages in the amount of \$1,000,000, reimbursement for moneys expended on the purchase of the defendants' cigarette products and aggravated, punitive and exemplary damages. The claim is based upon allegations of negligent and intentional acts, spoliation, negligent misrepresentation, deceit, conspiracy, product liability and breaches of express and implied warranty.
- On September 3, 1998, a motion was filed in Québec Superior Court seeking court authorization to institute a class action against RBH, Imperial Tobacco Limited and JTI-Macdonald Corp. The claimants claim to represent a class consisting of all persons residing in Québec who are or have been addicted to the nicotine contained in cigarettes manufactured by the respondents, as well as the legal heirs of the persons included in the group but deceased. In addition to seeking an order certifying the action as a class action, the claimants are seeking on behalf of themselves and each class member \$5,000 in exemplary damages and general damages to be assessed.

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(Tabular amounts are in thousands of dollars)

- On November 18, 1998, the Québec Council of Smoking and Health filed a motion in the Québec Superior Court seeking court authorization to institute a class action against RBH, Imperial Tobacco Limited and JTI-Macdonald Corp. on behalf of all persons who have allegedly suffered certain diseases as a result of smoking cigarettes manufactured by the respondents. The claims are based on allegations of failure to warn, addiction, nicotine manipulation, advertising directed at young people, false advertising and inadequate warnings. The claimant is seeking unspecified general and exemplary damages and the establishment of a fund with the object of limiting cigarette consumption, supporting medical research into tobacco linked illnesses and reimbursing the Province of Québec for certain health care costs incurred by it in treating these illnesses.
- On January 24, 2001, the Province of British Columbia initiated a lawsuit in the Supreme Court of British Columbia against RBH, the Company and numerous other Canadian and international tobacco companies and various tobacco trade associations seeking unspecified damages in an amount to cover the costs that allegedly have been, or will be, incurred by the Government of British Columbia in providing health care benefits to British Columbia residents who have allegedly suffered smoking-related illnesses. The action was brought pursuant to the Tobacco Damages and Health Care Costs Recovery Act (British Columbia), which purports to facilitate individuals and the provincial government in suing tobacco manufacturers. This legislation was enacted in January 2001 following a successful challenge (decided in March 2000 by the Supreme Court of British Columbia) by the industry of similar predecessor legislation enacted in 1998. RBH and other tobacco manufacturers have challenged the constitutional validity of the new legislation.
- On December 21, 1999 the Government of Canada filed a lawsuit in the United States Federal Court against another Canadian tobacco products manufacturer and the Canadian Tobacco Manufacturers Council ("CTMC") to recover unspecified actual and treble damages for lost taxes and enforcement costs allegedly suffered as a result of the illegal smuggling into Canada of tobacco products, punitive damages and to compel the defendants to disgorge the proceeds of such activities. This lawsuit was struck out on jurisdictional grounds, however that decision is currently under appeal.

The CTMC is a non-share capital corporation incorporated under the laws of Canada, the members of which are the three major Canadian tobacco product manufacturers including RBH.

Illegal smuggling of tobacco products into Canada occurred during the late 1980's and 1990's co-incident with the imposition by the federal and provincial governments of significant new taxes and duties on tobacco products. These products included products manufactured by RBH. Such taxes and duties were, however, not imposed on tobacco products exported out of Canada. In February 1994, in an effort to curb the high level of smuggling of tobacco products into Canada, the federal and certain provincial governments reduced taxes to earlier levels. Exports of tobacco products by the major

consolidated financial statements

(Tabular amounts are in thousands of dollars)

Canadian tobacco manufacturers increased significantly from 1991 to 1994. In January 2002, representatives of the Royal Canadian Mounted Police commenced an investigation into certain RBH business records relating to the period 1989-1996.

Although no action has been commenced against the Company or RBH, the Government of Canada and provincial governments may be considering commencing actions alleging smuggling of tobacco products. The federal Minister of Justice previously stated that if the Government of Canada believes that it has sufficient evidence to move against any other company it will do so.

In early May, 2002 RBH was advised by U.S. counsel that it had been named as a defendant along with several U.S. tobacco manufacturers and distributors, in an action commenced in the District Court of the State of Louisiana. The proceeding, which has not been served on RBH, claims unspecified damages arising from the use of certain brands of tobacco products allegedly manufactured by RBH. RBH does not sell these brands in the State of Louisiana and, in any event, has not determined whether the Louisiana court would have jurisdiction.

The Company and RBH deny the allegations in the claims, pending and threatened, described above and intend to vigorously defend the actions. All of these claims and potential claims remain at an early stage and an estimate of the loss which might be suffered, if any, cannot be determined.

15. Comparative Figures

Certain comparative figures have been reclassified to conform with the presentation adopted in the current year.

ten-year financial review

(Tabular amounts are in thousands of dollars)

Year ended March 31 (in thousands of dollars)	2002	2001	2000	1999
Operations				
Sales, net of excise duty and taxes	\$ 562,536	\$ 538,236	\$ 533,219	\$ 532,883
Earnings-				
Before minority interest	\$ 144,491	\$ 118,834	\$ 106,119	\$ 107,373
Minority interest	53,007	47,370	42,662	42,818
Earnings for the year	\$ 91,484	\$ 71,464	\$ 63,457	\$ 64,555
Additions to Property, plant and equipment	\$ 9,637	\$ 6,845	\$ 8,082	\$ 15,323
Amortization of Property, plant and equipment	6,126	9,039	5,604	5,731
Interest income (expense)-				
Long-term debt	(3,652)	-	-	-
Other	1,314	345	(197)	518
Dividends paid-				
Common	42,176	36,371	33,064	126,746
Financial position at year-end				
Working capital	\$ 369,102	\$ 224,692	\$ 184,921	\$ 157,561
Property, plant and equipment, net	49,980	46,592	48,933	46,527
Total assets	526,944	381,884	358,723	349,502
Shareholders' equity	253,274	203,276	167,303	136,910
Per common share				
Earnings - Basic	\$ 2.77	\$ 2.16	\$ 1.92	\$ 1.95
Dividends paid	1.275	1.10	1.00	3.83*
Shareholders' equity	7.66	6.15	5.06	4.14
Ratios				
Return on average total capital employed (%)	81.8	55.9	49.4	57.2
Return on average shareholders' equity (%)	40.1	38.6	41.7	38.4
Working capital ratio	5.2	3.6	2.8	2.3

*Includes a special dividend -
\$2.83 per share in 1998/99;
\$1.33 per share in 1995/96;
\$3.00 per share in 1993/94;

1998	1997	1996	1995	1994	1993
\$ 522,063	\$ 518,647	\$ 485,891	\$ 459,534	\$ 456,059	\$ 468,212
\$ 111,996	\$ 100,773	\$ 95,890	\$ 100,771	\$ 96,458	\$ 91,335
44,432	40,158	38,129	40,070	37,804	36,008
\$ 67,564	\$ 60,615	\$ 57,761	\$ 60,701	\$ 58,654	\$ 55,327
\$ 5,097	\$ 7,604	\$ 7,044	\$ 5,100	\$ 5,393	\$ 6,295
6,464	6,209	6,185	6,505	8,261	8,135
-	-	-	-	-	-
836	803	1,453	1,539	1,483	344
33,064	33,064	74,394	22,043	121,235	22,043
\$ 217,017	\$ 181,003	\$ 153,935	\$ 171,506	\$ 116,665	\$ 192,811
37,014	38,497	37,187	36,451	37,915	43,718
392,887	371,614	320,091	347,609	372,452	406,358
199,101	164,601	137,050	153,683	115,025	177,606
\$ 2.04	\$ 1.83	\$ 1.75	\$ 1.84	\$ 1.77	\$ 1.67
1.00	1.00	2.25*	0.67	3.67*	0.67
6.02	4.98	4.15	4.65	3.48	5.37
59.1	55.4	50.1	66.1	50.6	40.0
37.2	40.2	39.7	45.2	40.0	34.4
2.8	2.3	2.4	2.4	1.6	2.3

corporate governance

Maintaining best practices in corporate governance is a priority for the Company, its Board of Directors and management. The Board believes that high corporate governance standards are fundamental to the Company's continued success and enhancement of long-term shareholder value. To this end, the Company has adopted written terms of reference for each of the Board and its committees. The Board believes that effective corporate governance requires consideration of governance matters on an ongoing basis and where appropriate, the adoption of new policies which address evolving corporate governance standards and practices. This past year, the Board adopted a Corporate Disclosure Policy which reflects its commitment to providing timely, factual and accurate information to the investing public.

The Board and its Committees

The Board is generally responsible for supervising the management of the business and affairs of the Company. The Board, either directly or through its committees, supervises and assesses the performance and effectiveness of management and reviews the business and affairs of RBH in order to monitor the Company's investment in RBH. The Board has four regularly scheduled meetings each year with additional meetings held as required. The Board has the opportunity to meet without management present at each meeting. This past year, the Board met nine times, including meetings held in connection with the proposed acquisition of Santa Fe Natural Tobacco Company, Inc. Attendance of the directors at these meetings averaged 99%.

The Board's terms of reference provide guidance to the directors in performing their duties and exercising their responsibilities. Some of the Board's key responsibilities include reviewing and monitoring the strategic planning process, the determination of corporate objectives, the assessment of principal business risks applicable to the Company and its investment in RBH and the succession planning process for the Company.

The Board has three permanent committees: the Audit Committee, the Pension and Compensation Committee and the Corporate Governance Committee. As circumstances require, the Board may also establish special committees from time to time. All of the members of each of the committees are "outside" (non-management) and "unrelated" directors of the Company. The Chairman of the Board is an ex-officio member of all Board committees.

The committees play a significant role in the discharge by the Board of its responsibilities. The terms of reference for each committee provide parameters within which each committee operates and provide guidance to the members of the committees in performing their duties and exercising their responsibilities.

The Audit Committee

The Audit Committee is composed of the following six directors: Pierre Des Marais II (Chairman), Douglas G. Bassett, The Hon. Paule Gauthier, Pierre Gravelle, Alan M. Hodge and Richard H. McCoy. This past year the Committee met four times. Attendance at these meetings was 100%.

corporate governance

Some of the Committee's key responsibilities include reviewing the Company's annual and interim financial statements and MD&A, reviewing the internal and external audits and risk management programs applicable to the Company and RBH, maintaining communications with the external auditors, making recommendations as to the declaration of dividends and the Company's dividend policy and reviewing the key financial aspects of the business carried on by RBH and the Company's investment in RBH. The Committee also monitors issues relating to the independence of the Company's external auditors on an ongoing basis.

Pension and Compensation Committee

The Pension and Compensation Committee is composed of the following four directors: Douglas G. Bassett (Chairman), The Hon. Paule Gauthier, Alan M. Hodge and Richard H. McCoy. This past year the Committee met four times. Attendance at these meetings was 100%.

In connection with pension plans in which directors, officers and employees of the Company participate and those which are relevant to the Company's investment in RBH (the "Pension Plans"), the Committee's key responsibilities include reviewing the procedures for the management and administration of the Pension Plans, monitoring the performance of the investments of the Pension Plan and reviewing the actuarial reports, investment policies and goals and financial statements relating to the Pension Plans.

In connection with compensation matters, the Committee's key responsibilities include reviewing the compensation and benefits provided to senior executive officers of the Company including the President and Chief Executive Officer, reviewing the applicable incentive plans and reviewing and providing input with respect to other compensation matters and issues, including those arising in respect of RBH.

Corporate Governance Committee

The Corporate Governance Committee is composed of the following six members: The Hon. Paule Gauthier (Chairman), Douglas G. Bassett, Pierre Des Marais II, Pierre Gravelle, Alan M. Hodge and Richard H. McCoy. This past year the Committee met three times. Attendance at these meetings was 100%.

The Committee has the general responsibility for developing and monitoring the Company's approach to corporate governance matters, including assessing the performance and effectiveness of the Board as a whole, the committees of the Board and the contribution of individual directors. The Committee also has the responsibility for identifying and making recommendations to the Board as to the committees of the Board to be constituted from time to time, making recommendations as to the individuals to be appointed to serve as the Company's representatives on the board of RBH, making recommendations to the Board concerning the compensation to be paid to directors of the Company and monitoring and making recommendations with respect to operational matters where appropriate.

corporate governance

This past year the Committee specifically considered the terms of reference for each committee of the Board and recommended that no revisions be made at such time. The Committee also developed a Corporate Disclosure Policy for the Company which was subsequently adopted by the Board. The Policy provides direction to directors, senior management and employees of the Company and RBH regarding the disclosure and confidentiality of the companies' information. The Committee also considered the fifteen corporate governance recommendations in the Saucier Report. The Committee believes that the Company's practices are consistent, in principle, with the Saucier Report recommendations and the Toronto Stock Exchange's response to these recommendations.

In 1995, the Toronto Stock Exchange adopted fourteen guidelines for effective corporate governance addressing matters such as the constitution of and functions to be performed by the Board and its committees. The TSX requires that each listed company disclose its approach to corporate governance with reference to these guidelines on an annual basis. The Company uses these guidelines as a compliance template. The detailed analysis of the Company's compliance is set out in the 2002 Management Proxy Circular. The Committee is satisfied that the Company's corporate governance practices either comply with or exceed in all material respects the TSX guidelines, including the proposed amendments thereto.

board OF directors

Joe Heffernan

Chairman
Rothmans Inc.

John R. Barnett

President & Chief
Executive Officer of
Rothmans Inc. and
subsidiary Rothmans,
Benson & Hedges Inc.

**Douglas G. Bassett
O.C., O.Ont.**

Chairman
Windward Investments

Dean J. Blain

Partner
Gowling Lafleur
Henderson LLP
Barristers & Solicitors

Robert J. Carew

Executive Vice
President Rothmans
Inc., Executive Vice
President Corporate &
Legal Affairs,
Rothmans, Benson &
Hedges Inc.



**Pierre Des Marais II
O.C.**

President
Gestion PDM Inc.

**The Hon. Paule
Gauthier P.C. O.C.
O.Q. Q.C.**

Partner
Desjardins Ducharme
Stein Monast, Barristers
& Solicitors

Pierre Gravelle Q.C.

Consultant
Pierre Gravelle and
Associates

Alan M. Hodge

Corporate Director

Richard H. McCoy

Vice Chairman
TD Securities Inc.



shareholder information

Corporate Office

Rothmans Inc.
1500 Don Mills Road
Toronto, Ontario
M3B 3L1

Stock Exchange

The Company's common shares trade on the Toronto Stock Exchange under the stock symbol ROC.

Annual and Special Meeting

The annual and special meeting of shareholders will be held at 11:00 a.m. local time on Tuesday, July 30, 2002 at: the TSX Conference Centre
The Exchange Tower
130 King Street West
Toronto, Ontario M5X 1J2

Transfer Agent and Registrar

Questions relating to share certificates, dividends and estate settlements should be directed to:

CIBC Mellon Trust Company
P.O. Box 7010
Adelaide Street Postal Station
Toronto, Ontario
M5C 2W9
Telephone: (416) 643-5500 or
toll free 1-800-387-0825
Fax: (416) 643-5501
Website: www.cibcmellon.ca
Email: enquiries@cibcmellon.ca

Auditors

PricewaterhouseCoopers LLP
Toronto, Ontario
M2M 4K7

Legal Counsel

Gowling Lafleur Henderson LLP
Toronto, Ontario
M5H 2Z7

Bankers

The Bank of Montreal
Toronto, Ontario

Reporting Calendar

The Corporation's year end is March 31. The annual report is mailed in June, and quarterly results are mailed in August, November, and February.

Dividend Payment Dates

Quarterly; in the months of March, June, September and December.

Investor Relations

Paul Jewer
Vice President Finance and Chief Financial Officer
(416) 442-3483

Investor Website

www.rothmansinc.ca

Annual Reports

Brenda J. Moher
Assistant Secretary
(416) 442-3676
Rapport annuel aussi disponible en français

Rothmans, Benson & Hedges Inc.

Sales Regions

Western, Central, and Eastern Canada

Corporate Office

Toronto, Ontario

Plant Locations

Québec City, Québec
Brampton, Ontario

Sales Locations:

Vancouver, British Columbia
Calgary, Alberta
Edmonton, Alberta
Saskatoon, Saskatchewan
Winnipeg, Manitoba
Toronto, Ontario
London, Ontario
Montreal, Québec
Sainte-Foy, Québec
Dartmouth, Nova Scotia
St. John's, Newfoundland

Rothmans Inc. Officers

John R. Barnett
President and Chief Executive Officer
Robert J. Carew
Executive Vice President
Paul Jewer
Vice President Finance
and Chief Financial Officer
Dean J. Blain
Secretary
Brenda J. Moher
Assistant Secretary

Rothmans, Benson & Hedges Inc. Executive Management

John R. Barnett
President and Chief Executive Officer
Robert J. Carew
Executive Vice President Corporate
and Legal Affairs
Warren H. Finlay
Vice President Operations, Leaf and
Research and Development
Ronald F. Funk
Vice President Sales
Faryl Hausman
Vice President Corporate Affairs
Paul Jewer
Vice President Finance and Administration
Jean-Pierre Suys
Vice President Human Resources
Franco A. Salituro
Vice President Marketing
Robert Verrall
General Manager Tobacco Products Division
Rhonda Yarin
Vice President General Counsel

Rothmans Inc.

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